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CONGO: KEY ECONOMIC INDICATORS
(In millions of current U.S. dollars unless otherwise noted)

DOMESTIC ECONOMY	1985	1986	1987	1988	1989
Population (millions)	1.94	2.01	2.08	2.15	n/a
GDP	2162	1947	2152	2143	n/a
GDP real growth rate	-4.4	-6.8	-5.2	1.4	n/a
Consumer Price Inflation	6.1	2.5	1.5	n/a	n/a
BALANCE OF PAYMENTS					
Exports (FOB) (a)	1088.0	777.5	516.3	751.3	n/a
Imports (CIF) (a)	581.1	579.8	513.0	547.3	n/a
Trade Balance (a)	506.9	197.7	3.3	204.0	n/a
Current Account Balance	-161	-596	-245	-818	n/a
Public Long-Term Debt	2397	3001	3679	4360	n/a
Debt Service % of exports	32.5%	40.4%	26.0%	53.0%	n/a
Reserves excl Gold	7.6	11.2	8.8	6.7	n/a
Average Exchange Rate (CFA = US $1.00)	449	346	301	298	319
U.S.-CONGOLESE TRADE					
U.S. Exports to Congo (b)	19.4	10.1	9.3	20.8	12.1
U.S. Imports from Congo (b)	645.0	364.1	430.4	404.8	505.6
Trade Balance (b)	-625.6	-354.0	421.1	-384.0	-493.5
U.S. Share of Congo Imports	3.1%	1.6%	2.1%	4.2%	n/a
U.S. Share of Congo Exports	60.0%	55.0%	45.0%	75.0%	n/a
PETROLEUM PRODUCTION (millions metric tons)					
Crude	5.830	5.950	6.317	6.740	7.969
Refined Petroleum products	.564	.534	.541	.571	

Principal U.S. Exports
Heavy equipment for the petroleum and logging industries, wheat, electrical machinery (includes pumps, generators, spare parts, tools, and gauges), and chemicals.

Principal U.S. Imports
Crude petroleum, manganese, and sugar.

(a) Congo Ministry of Finance, (b) USDOC

SOURCES: Congo Ministry of Finance; Congo Ministry of Planning; African Development Bank; International Monetary Fund; and U.S. Department of Commerce, U.S. Bureau of the Census.

INTRODUCTION

Congo is a small, sparsely populated country in west-central Africa. About the size of New Mexico, it is bordered by the Atlantic Ocean and Gabon to the west, Cameroon and the Central African Republic to the north, Zaire to the east, and the Angolan enclave of Cabinda to the south. Some 85 percent of Congo's 2 million people live in the capital, Brazzaville, the port and economic center of Pointe Noire, or along the 535 km railway connecting the two cities.

Heavily dependent on petroleum revenues since the large fields off the coast near Pointe Noire went into production in the late 1970s, Congo's economic fortunes have varied with world oil prices and the dollar/franc exchange rate. During the petroleum boom of 1980-85, Congo's Gross Domestic Product nearly tripled. In 1986, the collapse in oil prices and the fall in the dollar combined to cause a sustained recession. Since 1988 Congo has enjoyed more stable oil prices and increased production. Borrowing incurred both during the boom years and afterward has raised the level of per capita indebtedness to the highest in Africa; fiscal austerity has reduced activity in an economy with a sizable state sector. The country also suffers from poor transport and credit facilities, a limited internal market, and a strong bureaucratic culture. Since 1989, the government has actively sought to reverse the state socialist economic policies of the past 25 years. Congo has considerable potential in agriculture, food processing, forestry, transport services, and various light industries.

SUMMARY OF TRENDS

Dealing with Dependence: Apart from its subsistence agricultural sector, the Congolese economy has always been dependent on its external links. During the 1950s and 1960s, income was generated from the export of raw materials and a few cash crops; the provision of transportation and services to other central African countries; and French aid, investment, and administrative expenditures. This dependence and the desire to break it fueled much of the radicalism in Congolese economic policy in the decade after 1965. But state socialist policies failed to achieve either economic independence or sustained growth, increased the burden on public finances, and destroyed productivity in many sectors. By the late 1970s, Congolese officials openly admitted the necessity of Western technology, investment, and expertise (most of which had never left). The high oil revenues during the early 1980s were used to finance administration, social services, public works, and the creation of inefficient industrial and service parastatals.

Debt: During the oil boom, Congo spent beyond its revenues on consumption and infrastructure. After the collapse of petroleum prices and the dollar, the government quickly drew up a structural adjustment program, arranged for standby facilities with the World Bank and International Monetary Fund (IMF), cut expenditures, and rescheduled its foreign debt. But plunging revenues and mounting debt liabilities created a continuous gap that scuttled the IMF program and was closed only by further borrowing. Congo's debt, estimated at $1 billion in 1985, is currently judged to be nearly $5 billion. Even token 1990 debt service will consume nearly a third of this year's budget. New structural adjustment agreements were largely drafted by the end of 1988, but final approval has been delayed as donor countries, the World Bank, and IMF debate the effectiveness of Congolese reform efforts and search for a formula by which needed concessionary debt relief measures can be offered to what is at least statistically a middle-income country. It is likely that a package will be in place soon.

Liberalization and Privatization: Structural adjustment measures since 1986 have emphasized reduced public spending, privatization of inefficient parastatals, and liberalization of the domestic economy. Echoing policies adopted elsewhere in Africa, Congo sought foreign or domestic purchasers or partners for government enterprises; offered incentives to primary producers; dismantled state agricultural monopolies and freed prices; froze civil service hiring; and raised import fees, payroll taxes, and utility charges. Progress was initially slow as the government was reluctant to run the political risk of imposing severe economic measures without external financial support, while foreign donors demanded those measures in advance as evidence of Congolese resolve. At the Fourth Congress of the ruling Labor Party in July 1989, however, the pragmatists in the ten-year old regime of Congo President Sassou-Nguesso secured full support for the program. Economic reorganizations and layoffs have since accelerated, serious reform of the banking and credit sector has begun, and the government has made unprecedented appeals for aid and investment to Western Europe and the United States.

Outlook: Events in Eastern Europe have probably removed the last remote possibility that Sassou's "New Directions" would be reversed by ideologues. Nevertheless, the next few years will be difficult ones for Congolese economic policymakers. Since 1985, gross domestic product has fallen 25 percent, and the squeeze caused by financial austerity measures has been slowly but cumulatively felt throughout a largely urban society, heavily dependent on government payrolls. Approval of debt relief and structural adjustment finance will begin the recovery process, but further austerity will be necessary before the fruits of reform are evident. Government policy has

centered upon diversification and private sector led growth, but it will take time for new economic forces to emerge. The country's productive facilities and technical services have traditionally been in the hands of bureaucrats or expatriates, and its domestic and external commerce has been conducted by French, Levantine, or West African middlemen. Congo's emerging entrepreneurial class lacks practical experience, and businessmen must face the strong bureaucratic instincts of the Congolese administration. Sassou once likened government sector reform in Congo to the labors of Sisyphus. Nurturing a productive market economy is likely to prove an even greater challenge.

PRODUCTION AND INCOME

Fewer than half of Congo's 2 million people are involved in the monetized economic sector (another 25-30 percent are students in this demographically youthful society, and the rest are subsistence farmers or inactive). Almost all of those involved in the modern economy are engaged in commerce, industry, or administration. The country's productive base is heavily skewed toward capital-intensive extractive industries. Despite attempts and incentives to encourage diversification, growth remains limited to the oil sector, which has been unable to carry the economy as a whole. The country is far from self-sufficient in food and has not barely tapped its export potential given its natural endowments. Cash crops include sugar, coffee, and cocoa; but production is heavily subsidized and awaits restructuring. Agriculture, forest products (the next largest export earner), transport services, and light industries producing consumer goods for the local market together contribute only about 15 percent to GDP. Most Congolese not engaged in subsistence agriculture rely on petroleum revenues recycled through government payrolls and family assistance networks.

SECTOR BY SECTOR

Petroleum and Mining: With production of 150,000 barrels per day (bpd), Congo is Africa's fifth largest oil producer, and is likely to be fourth by 1992 with output rising to 200,000 bpd. Oil is indeed the lynchpin of the Congolese economy. Higher petroleum prices and output since 1988 represent the country's primary resource in the short to medium term and are viewed as the source of investment funding over the longer term. Discoveries have been made in the Zatchi marine, Yombo, and Tchiboulela fields, and exploration has been intense both onshore and offshore. Seismic work is also being conducted in the Cuvette region of central Congo.

Elf-Congo, a subsidiary of France's Elf-Aquitaine, currently produces 80 percent of Congo's crude; AGIP-Congo, the remaining 20 percent. Eleven other firms are involved in oil exploration in Congo, and American companies have taken a greater role as a result of an active Congolese policy to diversify its foreign partners. Amoco will bring one of its offshore fields into production by late 1990. Arco, Chevron, and Conoco are exploring offshore or the adjoining coastal areas. Citizens Energy of Boston has secured an agreement to market Congo's royalty crude.

The government recently announced the long anticipated restructuring of HydroCongo, the national oil company. Under plans drawn-up in conjunction with the World Bank, the government will retain control only of a radically smaller organization dealing solely with research and production. HydroCongo's retail outlets, storage and transportation facilities, refinery, and household gas and chemical plant will all be privatized. The refinery has capacity in excess of Congolese demand and uses imported petroleum. The heavy crude lifted from Congolese fields is better suited for heating oil and is mostly exported to the United States.

Congo's minerals sector remains underexploited. Known reserves include potash, phosphate, natural gas, iron, zinc, lead, and diamonds. Recent production has been limited to one state-run polymetallic mine and scattered artisanal production of gold and diamonds. A TDP-financed feasibility study for a urea and chemical feedstock plant using Congo's natural gas will be put to tender soon. Potash was the major export earner in the early 1970s, with production averaging 450,000 tonnes annually. Operations were hindered by unused capacity, and technical and marketing difficulties. Production ceased after the mine flooded in 1977 and has not resumed despite positive feasibility studies, periodic inquiries, and offshore deposits estimated at 4.5 million tonnes. Congo also has approximately 1 billion tonnes of iron ore reserves in the Ivingo region along Gabon's southern frontier. Most of Congo's mineral resources are unlikely to be exploited until world prices rise and improvements are made in the country's transportation infrastructure and the supply of local capital.

Transportation and Communications

Infrastructure: Congo's principal transportation network is the interlocking river-rail system made up of the ocean port at Pointe Noire, the 535-km Congo-Ocean Railway (CFCO) connecting it to the river port at Brazzaville, and subsequent inland water routes up the Congo River and its tributaries.

Physical deterioration and the increasing costs of delayed repairs have imposed an additional burden on the domestic economy. Major reform of the river-rail system, currently managed by the huge parastatal Transcongolese Communications Agency (ATC), is a centerpiece of the World Bank's structural adjustment program.

Railways: The half-century old CFCO received a major rehabilitation in the early 1980s, including track realignment through the Mayombe and new locomotives and rolling stock. Merchandise traffic during the first 10 months of 1989 reached 1.041 million metric tons (MT), compared with 0.964 million MT for all of 1988. Operating inefficiencies continue on the single-track line; consequently, freight costs are among the highest in Africa. Lucrative revenues from the transshipment of Gabonese manganese have dropped with the opening of the Owendo mineral port in Gabon and the Transgabonese railway; monthly ore traffic dropped from 152 MT in 1988 to 85 MT during the first ten months of 1989.

Ports and Rivers: The port of Pointe Noire is competently run and arguably is the best deepwater harbor between Dakar and Cape Town, but is expensive and underutilized. Bottlenecks at the Zairean port of Matadi have induced some exporters to ship merchandise bound for Zaire through Pointe Noire and Brazzaville to Kinshasa. This routing is not without difficulties, although commerce between the two capitals (a 20 minute ferry crossing) is easier now than at any time since the 1950s. Congo's 2,330 kms of rivers are crucial to the export of timber, coffee, and other northern products, though low water levels permit their use only six to eight months of the year. Inland water transport also has benefitted from improvements, notably a European Investment Bank-sponsored expansion of the port of Brazzaville, whose 1989 tonnage (518,000 MT) was 25 percent higher than in 1988 (container traffic, however, dropped 16 percent (to 56,100 MT)).

Roads: Outside the major cities, there are currently only 550 kms of paved road, most in deplorable condition. The network has been a major focus of both the 1982-86 and the 1990-94 five year plans. The oil price collapse brought the government's ambitious initial roadbuilding program to a premature halt in 1986, and investment money has since been scarce. Its importance, however, is recognized, and the World Bank has targeted monies for road rehabilitation.

Airlines : Congo is a charter member of Air Afrique, and Brazzaville is well served by eight other international carriers. The national airline, Lina-Congo, holds a formal monopoly of domestic services, as well as offering short haul regional flights. It suffers, however, from debt, high

maintenance costs, and serious overmanning. In January 1990, Lina Congo turned over its two smaller aircraft and the secondary domestic routes they service to a private charter operator; the national carrier was itself put into receivership, pending a likely privatization.

Telecommunications: Investment in new exchanges and microwave links has greatly improved Congo's telephone communications, both domestic and international. Direct dialing is available to most countries (including the United States), and international calls from Zaire are often routed through Brazzaville. Congo's earth satellite can handle 6,250 lines and two television channels. The national television broadcasts a single channel; radio offers medium- and short-wave services. Residents of eastern Congo also receive Zairian transmissions, including a satellite relay service offering five television channels -- four European and one American. Congolese television makes use of European and American satellite feeds in its international coverage. Western magazines and newspapers are freely available. International mail is reliable, even if the domestic service often is not. Courier service is available for urgent documents between the major cities or internationally. Telex remains a problem and fax is increasingly preferred. Congo has over 70,000 radios, 10,500 telephones and 3,000 televisions.

Industry and Construction

Congo's industrial sector is primarily devoted to light manufacturing and food processing, and has historically played only a small role in the national economy (approximately 5 percent of GDP). Products include bottled beverages, glass and bottles, soap, textiles, plastics, lumber and plywood, furniture, apparel, cigarettes, sugar, flour, cement, and the refining and distribution of petroleum products. Long dominated by large, inefficient, and subsidized state enterprises, the government since 1987 has begun to close or privatize these enterprises and is actively seeking foreign investors.

Agriculture

Rich in agricultural land, self-sufficient in food production, and an exporter of cash crops at independence, Congo has experienced a steady decline in its agricultural output over the succeeding two decades. Rural flight has been a critical problem since the 1930s and has been accentuated with the growth of the oil-based economy and a ten-fold expansion of the civil service since independence. The proportion of the population on the land has dropped from 80 percent in 1960 to less than 30 percent today. Less than 1 percent of the arable land is currently cultivated, and the country imports over 70 percent of its food requirements at a cost of 90 billion FCFA (1988).

The agricultural sector includes both smallholdings and state farms, the latter slated for privatization. Cassava is the principal agricultural product. Rice, corn, peanuts, and vegetables are produced in small amounts using traditional farming methods. Cash production of coffee and cocoa has stagnated or declined for a decade. Subsidized marketing boards are currently being liquidated.

Since 1988, the government has dismantled most marketing monopolies, freed prices, removed import taxes on essential agricultural inputs, begun the sale of state farms, allowed party members to engage in agriculture, begun new credit institutions, and publicized "back to the land" and "agricultural self-sufficiency" campaigns. There have been some improvements, notably in the supply of produce. The shrinking of government employment and largess has created new incentives. But it will require several more years before significant progress will be made in reversing the effects of a 20-year state-centered agricultural policy in a country with a strong urban culture.

Forestry

Congo's forests cover approximately 60 percent of the national territory. Eucalyptus and pine are raised commercially in coastal and southern Congo. Tropical hardwoods are found in the huge northern rain forests, and to a lesser extent in the Mayombe in the southeast. Western environmentalists are taking an interest in the still poorly accessible northern rain forests, but the government is eager for investors to develop exports of forest products.

A major source of export earnings for many years, then neglected during the 1970s, the forestry sector has made a comeback in recent years. From a peak of 800,000 cubic meters in the late 1960s, timber production declined to 320,000 in 1975, before slowly recovering: 750,000 cubic meters were cut in 1988. The realignment of the CFCO railway helped boost exports, but the sector still suffers from formidable transportation requirements, adverse weather conditions, and shortages of locomotives. Timber dominates the forestry sector; production of processed wood has averaged only 120,000 cubic meters per year since 1973.

A technique for cloning eucalyptus trees was developed in Congo in the late 1960s, and large plantations have been established near Pointe Noire, whose identical trees mature every 5 to 6 years and can be harvested three times in a 21-year period. U.S. investors have recently established a wood treatment plant producing utility poles.

INTERNATIONAL TRADE

International trade has always played a key role in the Congolese economy. Imports currently account for at least three-quarters of final consumption and exports for over half of GDP. Commerce has traditionally been regarded as the most lucrative economic activity in Congo, but the slump has taken its toll. Since 1986, the large trading houses of SCOA-Congo, CFAO-Congo, and SHO-Congo have all suffered losses and been sold or restructured. Overall demand for consumer goods is likely to fall even further in the short term.

Imports: Foodstuffs, machinery, motor vehicles, chemicals, certain petroleum products, and a wide variety of consumer goods are imported. France dominates almost every important sector, supplying almost half of Congo's imports; the EC-EFTA countries together furnish over three-quarters. The United States, Cameroon, China (PRC), Japan, and Thailand each supply about 4 percent. Russia and Eastern Europe have never accounted for more than 2 percent of Congolese trade. While American managerial skills and technology are respected, U.S. exports to Congo have remained in the $10 to $20 million range over the past five years and are heavily concentrated in oil field equipment and supplpies. Equipment for the petroleum, forestry, aviation, and telecommunications sectors head the list of Congo's imports of manufactures.

Exports: Petroleum is Congo's principal export, accounting for 76 percent of total exports in 1988. The United States is Congo's principal customer, purchasing in 1988 $405 million of its $540 million in exports, 95 percent of which was petroleum. Other Congolese exports include timber, gemstones, industrial diamonds (mostly in transit from Zaire, Angola, and the Central African Republic), sugar, coffee, and cocoa.

OPPORTUNITIES FOR U.S. BUSINESS

Commercial: Due to the traditional dominance of European firms, the growing presence of Lebanese traders and business practices, and the continued domestic economic recession, opportunities for immediate U.S. export gains to Congo are limited. But a stable dollar/CFA rate, increased U.S. political and economic visibility, improved communications with the Zaire market, official promotion of private sector activity and foreign investment, and the 1992 priorities of European firms offer opportunities for American business to compete more effectively with established companies.

U.S. products have a strong reputation for quality in Congo. Local contact and assurances of service and spare parts are essential to business success here. U.S. companies unwilling or unable to commit resources to establishing a strong local presence should secure representative agreements with firms offering experience and personal presence in Congo and which can provide good after-sales service.

The principal markets offering opportunities for U.S. business include small-scale agricultural equipment, fertilizers, insecticides, agricultural commodities such as animal feed, logging and other forestry equipment, food processing equipment, and general machinery and appliances adjusted to the Congo's 220V/50 cycles. Growth may be expected in oil field equipment and services and in sales opportunities among the Congolese middle class and expatriates for a wide variety of American consumer goods. Congolese consumers demonstrate great loyalty; once won, a market position is not easily lost, even to cheaper competitors.

Investment: Privatization and the green light given private enterprise have opened numerous avenues for investors. The government is actively seeking purchasers or joint venture partners for enterprises formerly operated by parastatals, especially in agriculture, livestock, forestry, banking, and light industry. The emerging Congolese business class is looking for American participation, as are many Europeans in the face of Lebanese competition and the 1992 priorities of their traditional metropolitan partners. The current U.S. business presence in Congo is concentrated in the petroleum sector. Recently, however, American firms have ventured into the forestry and consumer durable goods sectors.

Congo signed and ratified in 1990 a Bilateral Investment Treaty with the United States guaranteeing protection of and equal treatment for American investors. The Congolese Investment Code offers a variety of tax incentives, particularly for firms in agriculture and forestry. Although negotiations can be lengthy, the government has shown a willingness to accept additional concessions needed to attract foreign capital.

Obstacles: The principal difficulties for Americans doing business in Congo are as follows:

- Language: Few Congolese are fluent in English. Firms that can communicate in French have a decided edge.

- Bureaucratic practices: A company still must devote twice as much time as would be expected to the negotiating and customs clearing process.

- Information: U.S. companies are disadvantaged as compared to local European and Lebanese competition.

- o Local presence: Repeated and continuing contacts, local representation, and after-sales service and spare parts are crucial.

- o Transport costs: U.S. exports to Congo are delivered primarily via European transportation links, adding shipping costs not borne by European products.

- o Inefficiencies in the banking sector, which is dominated by French interests.

- o Difficulties in obtaining assistance from U.S.-based Congolese officials: Few Congolese diplomats in their New York and Washington missions are versed in commercial affairs and able to speak fluently in English (although there is some evidence of change in this area).

- o Bias against small markets: Most U.S. companies are reluctant to pursue business opportunities in Congo or even take steps to meet existing demand for American products in a country of fewer than 2 million people with an even smaller middle class.

Despite liberalizing economic measures under way even before the vast changes in Eastern Europe and forecasts of a recovery of Congolese fortunes based on anticipated increases in petroleum production in the 1990s, the next few years are likely to be difficult. Congo has just begun painful structural adjustment measures; sizable infrastructural investment must still be made; and local officials and businessmen are unfamiliar with many aspects of a liberal market economy. Nonetheless, some entrepreneurs have been successful even in these difficult times. Despite initial undercapitalization, a U.S. joint venture wood treatment facility appears to have won a place in African markets. Singer, Inc. has taken advantage of Congo's geographical location and convertible CFA currency to launch an assembly and retail sales operation to serve the central African market. A Belgian firm recently negotiated a joint venture for the former textile parastatal. Congo is entering a highly fluid period of economic change which is being shaped in large measure by the imperative for growth and the opportunities which present themselves from abroad.

Those interested in doing business in Congo may wish to review "Marketing in the Congo," a Commerce Department publication, and "Background Notes: Congo" published by the Department of State. For further information or assistance, firms are encouraged to contact the American Embassy in Brazzaville (Box C, APO New York 09662-0006, TEL: (242) 83-24-26, FAX: (242) 83-63-38, TLX: 5367 KG), or the Congo Desk Officer at the U.S. Department of Commerce (202-377-0357).